

3. (a) Define the following terms indicated in bold in the text: [2 marks]

(i) investment

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is spending by firms.

2 *Precise definition* 2

An explanation that it is expenditure by firms on capital equipment and is an injection into the economy (or any other reasonable second point).

(ii) inflation. [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is rising prices.

2 *Precise definition* 2

An explanation that it is a sustained increase in the general or average level of prices.

(b) Using an appropriate diagram, explain what is meant by the economy “operating below capacity”. [4 marks]

level

0 *Inappropriate answer* 0

1 *Identification of appropriate theory* 1-2

For drawing a correctly labelled AD/AS diagram, or production possibility curve (PPC), where output is below the full employment level **or** for providing an explanation of how the economy is not producing at its potential level of output.

2 *Correct application of appropriate theory* 3-4

For drawing a correctly labelled AD/AS diagram, or production possibility curve (PPC), where output is below the full employment level **and** for providing an explanation of how the economy is not producing at its potential level of output.

- (c) Using an appropriate diagram, explain how the Swiss National Bank may be able to bring about the desired change for the Swiss franc.

[4 marks]

level

0 *Inappropriate answer*

0

1 *Identification of appropriate theory*

1-2

For drawing a correctly labelled demand and supply diagram, showing a shift in the demand curve for the Swiss franc to the left or a shift in supply to the right **or** for explaining a method which the Swiss National Bank could use to reduce the value of the Swiss franc.

2 *Correct application of appropriate theory*

3-4

For drawing a correctly labelled demand and supply diagram, showing a shift in the demand curve for the Swiss franc to the left or a shift in supply to the right **and** for explaining a method which the Swiss National Bank could use to reduce the value of the Swiss franc.

- (d) Using information from the text, the diagrams, and your knowledge of economics, evaluate the performance of the Swiss economy. [8 marks]**

Responses may include:

- Switzerland's GDP growth has generally been below OECD levels and was in recession for a period
- comment on relative growth rates
- current account balances are positive, but not high enough
- Swiss inflation rates are well below the OECD
- unemployment levels are much lower in Switzerland
- country depends upon trade and there has been a downturn in the world economy
- the Swiss franc may be over-valued
- economy is below capacity
- any reasonable answer.

Examiners should be aware that candidates may take a different approach, which if appropriate should be rewarded.

Effective evaluation may be to:

- consider short run versus long run consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments

#### **Level**

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3-5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8